ZENON®

Water for the World

Annual Report 1999
ZENON Environmental Inc.

Clean Water
Clear Thinking

Corporate Profile

Established in 1980, ZENON Environmental Inc. is a global leader in the manufacturing and marketing of membrane based technologies for drinking water purification, wastewater treatment and water reuse. ZENON has demonstrated its commitment to solving critical water and wastewater problems, and to doing so in the most effective and efficient way.

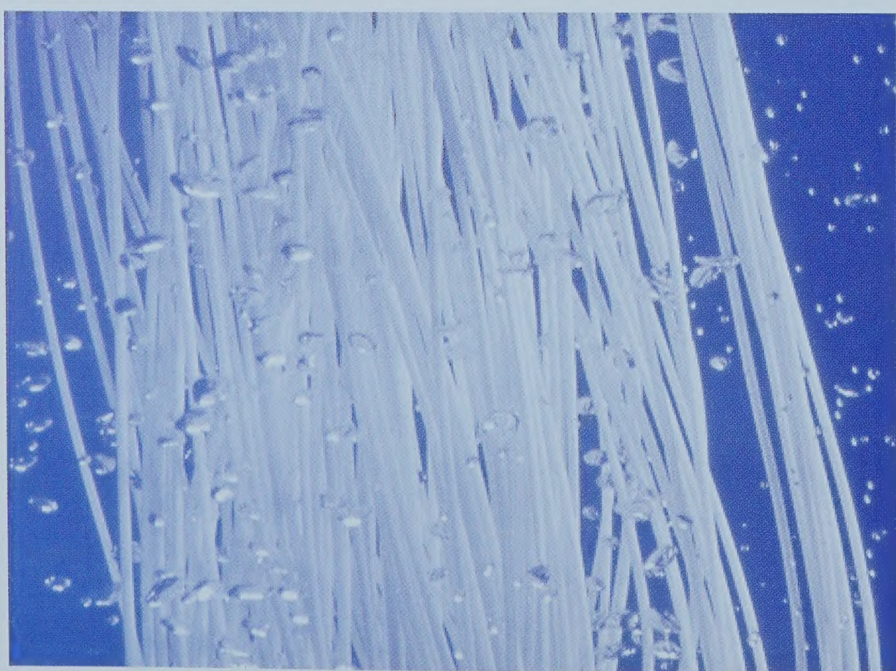
ZENON has been advancing immersed membrane technology since the early '90s. This level of experience and capability has led to the development of membrane products that have been successfully proven for large-scale applications. The ongoing commitment to research and development has produced and commercialized such innovative, revolutionary technologies as the ZeeWeed® membrane and the ZenoGem® membrane bioreactor, leading to ZENON's success.

ZENON is setting the global standard for water and wastewater treatment, while dramatically reducing energy and chemical requirements in treatment processes, and guaranteeing new levels of water purity.

ZENON's products and services are marketed for a variety of municipal, industrial, and government applications through ZENON's offices and representatives located throughout the world. The ZENON group of companies operates from seven locations in North America, six in Europe, and one in each of Asia, Latin America, and the Middle East.

Additional information is available at the Company's web site **www.zenonenv.com**.

ZENON Membranes



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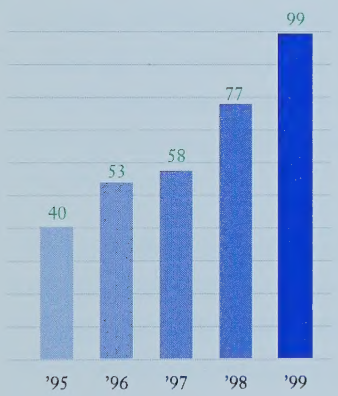
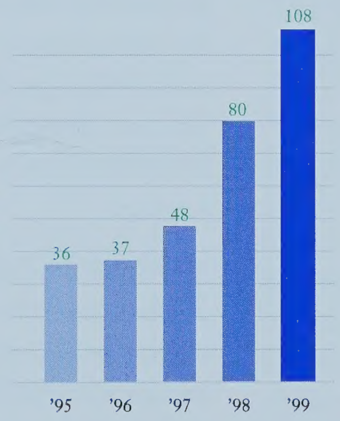
Financial Highlights

($000's)	year ended December 31 1999	1998
Total Revenue	**98,755**	77,211
Operating Income (EBIT)	**3,621**	5,120
Net Income	**2,464**	4,789
Net Income Per Share*	**0.11**	0.23
Total Assets	**108,052**	80,358
Total Shareholders' Equity	**73,558**	54,916

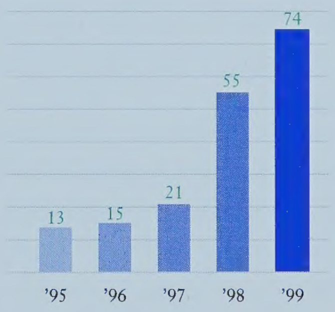
**reflects 2-for-1 share split*



Total Revenue
(in $ millions)



Total Assets
(in $ millions)



Shareholders' Equity
(in $ millions)

Earnings Per Share*
(in cents)
**reflects 2-for-1 share split*

"Nineteen ninety-nine was a breakthrough year for ZENON as we demonstrated our ability to penetrate international markets, with significant orders coming from Asia Pacific, Europe, and the Americas. It also became apparent that the markets for both drinking water treatment and wastewater recycling have increased dramatically worldwide."

Andrew Benedek
Chairman and CEO

Message from the Chairman

Fellow Shareholders:

Nineteen ninety-nine was a breakthrough year for ZENON as we demonstrated our ability to penetrate international markets, with significant orders coming from Asia Pacific, Europe, and the Americas. It also became apparent that the markets for both drinking water treatment and wastewater recycling have increased dramatically worldwide.

The most significant endorsement of ZENON's technology in the US municipal market came with the contract to supply ZeeWeed® technology to Olivenhain, California. This plant is the largest ultrafiltration membrane treatment plant in North America. By winning this contract, worth approximately $20 million, we were able to position ourselves as a major global player in the drinking water market.

We are seeing a dramatic increase in the number and size of opportunities for membrane technology around the world. For example, prior to 1996, there were no membrane filtration plants in Ontario. At that time, ZENON was asked to supply emergency systems for the Town of Collingwood, followed with the installation in 1997 of a permanent membrane based facility. Today, ZENON has either built or is in the process of building, twelve drinking water plants and three wastewater plants in Ontario alone. What has happened in Ontario, in terms of the technological shift to membranes, is also happening all over the world. During 1999, by penetrating new geographical regions, we have proven that we are a world leader in this burgeoning market.

The value of large global projects we are following has grown four-fold in the last year, to a potential amount in excess of one billion dollars in the municipal sector alone. These opportunities will take a number of years to come to fruition; nevertheless, their magnitude is a clear indication that the market is expanding rapidly. The industrial sector is also growing rapidly: in 1999 ZENON obtained several large process water and wastewater reuse projects in Europe and the Americas.

In a world where continuous technological development is the norm, markets are eagerly embracing new advances that create increased efficiencies. ZENON's immersed membrane technology is setting a new global standard for water treatment systems in the industrial and municipal markets. But, in order to ensure that we secure our fair share of this expanding market, we must make the appropriate investments now. We must continue to maintain and increase our leadership position while developing the infrastructure that will allow us to exploit our technology globally. During 1999 this has required us to make long-term investments in four important areas.

First, we have invested in increasing our technological lead. In 1999, we developed the ZeeWeed®-650: a membrane module that

"The value of significant global projects we are following has grown four-fold in the last year, to a potential amount in excess of one billion dollars in the municipal sector alone."

Andrew Benedek
Chairman and CEO

provides a continuing competitive advantage. We also increased our investment in research and development to ensure advancements in 2000 and beyond.

Second, we invested in production infrastructure. In anticipation of significant and rapid market growth, we have built a new system assembly plant in Hungary; doubled our membrane production capacity in Burlington, Ontario; and relocated our North American system assembly plant and headquarters to Oakville, Ontario. While membrane production facilities will continue to require further investments as the Company grows, we believe that we now have sufficient resources in place for the non-membrane production infrastructure to sustain us for some time into the future.

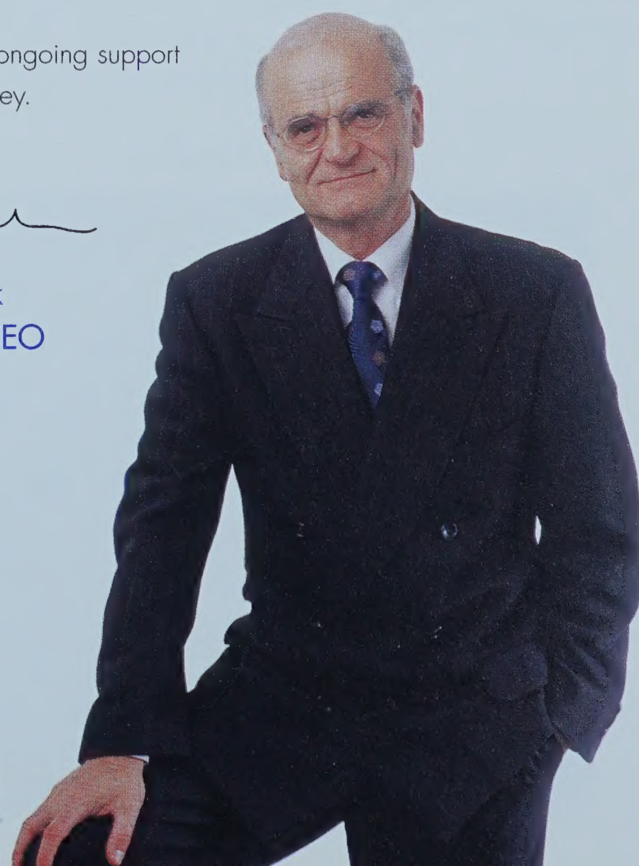
Third, we increased our sales, bidding and design capabilities for the municipal sector in order to pursue the rapidly increasing opportunities presented by that market. In addition, we strengthened and refocused our management team to ensure that, as we increase our share of the expanding global water market, we can move successfully to the next level.

Finally, with technology, production facilities and people in place, we invested in market development. We increased our sales presence in the Middle East, the UK and Asia Pacific (through a Singapore office). The UK and Singapore offices, established in 1999, have already brought ZENON significant orders, including new licensees in the UK, Scandinavia, Australia, and Korea; and significant membrane sales in both the UK and Australia. In one of our proudest achievements, we were selected to supply a membrane system for a new water treatment plant for Auckland, New Zealand. This was one of the most sought after projects in the world, and serves as a showcase for our ability to address the municipal market worldwide.

The global marketplace for water treatment, already expanding due to population growth and environmental concerns, is just at the beginning of a major technological shift. Thanks to our investments in technology and commercial capability, there are very few membrane companies in the world as well positioned to take advantage of the opportunities furnished by rapidly growing and changing global markets. Our investments have resulted in relatively low profit for 1999. However this investment will reap enormous dividends over the next several years as the market shifts.

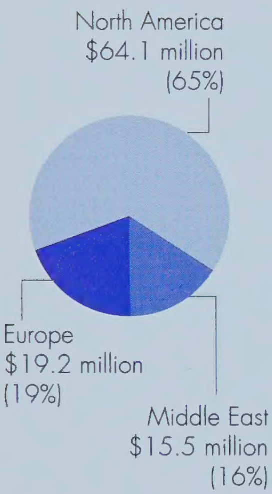
I thank you for your ongoing support on this exciting journey.

Andrew Benedek
Chairman and CEO



breaking through

Report on Operations



Revenue by Customer Location

The Company continues with its commitment to maintaining a competitive advantage in the marketplace. A significant technological breakthrough occurred during the year with the introduction of the new ZeeWeed®-650 membrane module, which has further enhanced our competitive position. By greatly increasing the efficiency of the traditional ZeeWeed®, the ZeeWeed®-650 provides a distinct competitive advantage. With the same footprint as the traditional ZeeWeed® module, the ZeeWeed®-650 allows for greater ease of future replacement or capacity expansion. Continued investment in research and development will ensure ZENON's technological lead worldwide.

Further investments were made during the year in membrane production resulting in a doubling of previous production capacity. The purchase and expansion of the current membrane production facility in Burlington, Ontario, combined with the purchase of additional property means the Company is well prepared to meet the increasing market demand for its products.

North America

The North American market is ZENON's largest with 65% of total revenues. This market is served by a network of eight regional offices across Canada, the US, and Brazil, with additional sales coverage in Mexico. ZENON covers this market through two operating divisions: Municipal, which provides municipal water treatment, land development systems, and rapid deployment; and Industrial, which provides its customers with both wastewater and pure water applications.

The Municipal market has been the fastest growing over the past year as the global marketplace further embraces the technological shift to membrane based water treatment. Accordingly, significant investment was required in the sales, bidding and design capabilities in this area. This investment resulted in an increase of 162% in backlog over the last year to $34 million and a significant improvement of 149% in bookings. In addition, resources were also focused to restart the land development/commercial sector, which uses the ZenoGem® and Cycle–Let® systems for smaller residential and commercial applications.

Currently, there are numerous municipal pilot plants in operation throughout North America that have the potential of generating over Cdn$300 million in new orders over the next two years.

In 1999, the Municipal division started eight drinking water, one storm water, and four sewage treatment plants in North America. In addition, eight drinking water plants and six sewage treatment plants are currently being constructed that will utilize ZENON membranes.

The year began with the $20 million contract in Olivenhain, California. This new drinking water plant being built in Olivenhain is the largest ultrafiltration plant in North America to date and, once running, will produce 28 million gallons per day of clean, clear drinking water purified by ZENON membranes.

This success was continued in the fall when ZENON won the Auckland drinking water project, which is the largest ultrafiltration membrane treatment plant in New Zealand. Strategically, this placed ZENON as the leader in the Pacific-Rim region. The year closed for drinking water contracts with ZENON being chosen to supply membranes to one of the largest iron and

manganese drinking water treatment plants in the world, in Seekonk, Massachusetts.

The land development business also grew quickly in 1999, securing many new projects such as a manufacturing plant in Fiji, a hotel in the Caribbean, a resort in Ontario, and a casino in Northern California. These will serve as reference sites for the ZenoGem® and Cycle-Let® systems and are breakthroughs into new geographical markets for these applications. The potential for this sector is expanding rapidly as ZENON provides the means to develop properties where no connections to sanitary sewer systems exist.

Rapid deployment continued to sell its mobile systems to military applications. ZENON's "ADROWPU" systems were used in 1999 by NATO forces in Kosovo for the emergency supply of clean drinking water. ZENON's shipboard system, originally developed for the Canadian Navy, was adapted and successfully sold in early 2000 to the cruise ship industry.

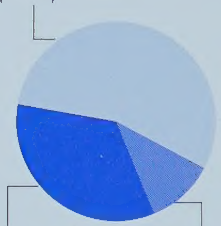
In spite of this high level of activity in 1999, the results of the municipal sector were below expectations. Revenue was slow to materialize due to the longer sales cycle on larger contracts and some slippage in contract deadlines. The delayed revenue, margin pressures on larger contracts, and investment in sales support resources all combined to negatively affect the profit of this business while the longer term fundamentals remain strong.

The Industrial division has also been experiencing growth over the year, securing several large process water and wastewater reuse contracts.

The first breakthrough into the North American dairy industry was made with the sale of the ZeeWeed®/ZenoGem® system to purify and recycle dairy wastewater. This sale was significant in that it is the first membrane based system in dairy wastewater for the removal of both organic compounds and non-organic elements such as phosphorus and nitrogen. This significant order generated industry-wide interest in ZENON's technology and paved the way for a licensing agreement with a leading engineering firm to the dairy industry.

There were also breakthroughs in the power industry with the sale of numerous ZeeWeed® based boiler feed water plants.

Results in the Industrial sector were encouraging in 1999 in both revenue and profitability terms. In late 1999, structural changes were made to increase the focus on this business unit and to support it with the necessary resources. This increased emphasis on Industrial is already showing results, with bookings up in the early part of 2000.



Revenue by Customer Sector

Olivenhain, California

Europe

To ensure ZENON's global lead, certain investments were made in 1999 to expand the European production infrastructure. A new facility was built in Hungary, including a system assembly plant, to better service the European, Middle East, and Asia Pacific areas, and to capitalize on the increasing market growth for membrane based water treatment systems in these areas.

All European operations showed improvement in revenue, resulting in increased profits. ZENON's ultrafiltration system was successfully introduced to power plants in both Hungary and Poland in 1999.

Northwestern Europe started off the year with its second largest municipal contract in Germany, followed with the successful start-up of its first European municipal sewage plant. ZENON opened up a new office in the UK in May 1999, and has since obtained its largest wastewater treatment contract to date. In addition, new licensees were added in the UK and Scandinavia.

Middle East

Although results in the Middle East were disappointing in 1999, the potential for market growth in this water-starved region of the world is enormous. After restructuring the Dubai office, increased sales effort is being channeled to this region in order to compete for some of the largest contracts in the world for drinking and wastewater treatment.

Asia Pacific

The Singapore office opened in the middle of 1999 and has already commenced sales activity. New licensees have been obtained in both Australia and Korea to sell ZENON's leading membrane based water purification systems to this high potential region.

There is no question that Asia Pacific presents ZENON with enormous potential for the future. The only question is timing. Significant opportunities exist today in certain more developed economies and, for the longer term, the water filtration needs in the less developed economies are clearly a massive challenge for those societies. ZENON is now positioned in the region to take advantage of these opportunities over time.

New ZENON office and factory in Tatabánya, Hungary

To provide the necessary funds to support its goals for global expansion, the Company completed an offering of 1,100,000 Class A shares in April 1999. The net proceeds from this issue of $18.9 million were used for the building of the new, expanded Company headquarters in Oakville, Ontario; for the purchase and expansion of membrane manufacturing capacity; and for general corporate purposes in support of business growth. In June 1999, the Company split its common and Class A shares on a 2-for-1 basis, the impact of which has been reflected on a retroactive basis in this Annual Report.

Revenue for the year ended December 31, 1999 was $98.8 million, an increase of 28% over the $77.2 million in the previous year. This represents steadily increasing revenues in Europe and in our Industrial customer base in North and Latin America. Sales activity in the Municipal business is at record levels, but due to the long-term nature of the contracts on which ZENON is bidding, the revenue and profit benefit of this sales activity will not be fully visible until the latter part of 2000 and into 2001.

The overall backlog at December 31, 1999 of $48 million is up by 30% over 1998, not including the low margin Middle East contract. Bookings in 1999 are up 46% over the equivalent figure last year, adjusted for the Middle East contract. In the Municipal business, where the Company has invested in increased sales, bidding and design capability, the backlog and bookings in 1999 increased by more than 100% over the previous year.

The gross profit, as a percentage of revenue in 1999, was 36%, down from the 39% recorded in 1998. This was due in part to the impact of the low-margin large contract in the Middle East, which will be completed in the second quarter of 2000. The gross profit was also affected by lower than average margins on large scale contracts, by discounts required to penetrate certain strategic market sectors, and by the ongoing requirement to invest in pilot plants to demonstrate the Company's proprietary technology.

Selling, general and administrative (SG&A) expenses were $26.6 million in 1999, an increase of 30% over 1998. At 27% of revenue, these expenses are slightly up from last year due to increased research and development costs, increased investment during 1999 in sales, bidding and design capability in the Municipal business, and also to certain one-time costs incurred to downsize and restructure the Company's office in Dubai.

In 1999, $5.7 million was spent by the Company on research and development for which funding of $2.2 million was received, for a net expense of $3.5 million (compared to a net expense of $2.3 million in 1998). In addition, $2.1 million was spent on product development in the field. On an ongoing basis, ZENON's capable technical support teams are involved in continuous product enhancement, the cost of which is not recorded separately and is written off annually as part of SG&A expenses. This

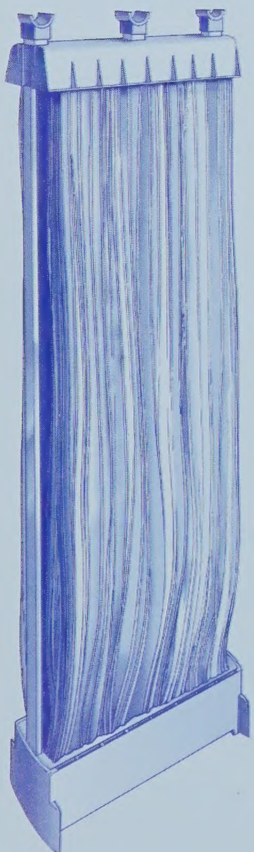
"Thanks to our investments in technology and commercial capability, there are very few membrane companies in the world as well positioned to take advantage of the opportunities furnished by rapidly growing and changing global markets."

Andrew Benedek, Chairman and CEO

overall commitment to research and development has kept ZENON at the forefront of technology in the industry.

Net income declined in 1999 to $2.5 million (11¢ per share) from $4.8 million (23¢ per share) in 1998. This decline occurred for three principal reasons. First, due to uncertainty regarding the recovery of a secured convertible debenture and the related interest earned to December 31, 1999, management felt it prudent to fully provide for a loss of $1.1 million. Second, profitability was negatively affected by the lower gross margin. Third, it was affected by the increased SG&A and research and development expenses referred to above. In aggregate, these factors lowered the net income as a percentage of revenue to 2.5% in 1999, compared to 6.2% in 1998.

During 1999, ZENON has experienced a significant change in the size and profile of its long-term contracts. As a result, management, in discussion with the Company's external auditors, has amended the method of applying percentage-of-completion to the calculation of revenue and profit earned on the contracts. Management believes that the new method better reflects the true economic activity of ZENON and properly attributes more revenue and profit to high value-added activities (such as systems design, membrane manufacture, systems assembly and field installation) than to the low value-added activity of purchasing hardware and parts for the system. The new method also has the effect of reducing the heavy back-end loading of contract revenue and profit that was characteristic of the previous method. While the effect of applying this new method increased revenue and profit by $1.4 million versus the previous method, all of the increase relates to 1999. Had this new method been applied in 1998, there would have been no material difference in the reported results.



ZeeWeed® module

Capital Expenditures

During 1999, the Company expanded its capital asset base in three significant ways. Firstly, a new headquarters has been completed in Oakville, Ontario, to allow ZENON to amalgamate its key sales and administrative staff under one roof together with the systems assembly function, and to provide sufficient space for future growth. The new building was opened in March 2000 and will showcase the ZeeWeed® technology for the filtration of drinking water and reuse of waste-water. Secondly, the Company built a new office and systems assembly plant in Tatabánya, Hungary, to serve business growth in Central Europe and support operations in the rest of Europe and the Middle East. Thirdly, the Company purchased its strategic membrane manufacturing facility in Burlington, Ontario, significantly increasing the membrane production capacity and is currently making plans for the further expansion of the facility to match the growth of the business. We also purchased adjoining land to the membrane facility. In addition, investments were made in pilot plants reflecting the high level of bid activity and in upgrading the important computer hardware and software that supports the business. In total, capital expenditures were $20.9 million in 1999, positioning the Company for the future.

Liquidity

As at December 31, 1999, the Company had in place credit facilities totaling $83 million, through banking agreements signed in Canada, Germany, and Hungary. The total facility consists of $59 million in operating credit lines (including letters of credit), a term loan facility of $10 million, and foreign exchange contract facilities of $14 million. In addition, the Company has

access to specific project financing facilities that are sufficient to meet any foreseeable cash needs for large projects.

At December 31, 1999, the working capital of the Company was $38 million, up from $33 million one year ago. The increase in working capital is due mainly to the growth in receivables and unbilled revenue on long-term contracts that were in process at year-end. In addition, capital expenditures during the year were $20.9 million. These cash needs of the business were financed principally by funds from operating activities of $8.4 million and proceeds of $18.7 million from the issue of Class A shares in April 1999. As a result, the net cash position of the Company at the end of 1999 was $3 million, down by $7.8 million from the $10.8 million at December 31, 1998.

The Company believes that its current cash position, along with the credit facilities available and future cash flows from operating activities, will be sufficient to meet all of its anticipated cash needs for the financing of this growing business over the next twelve months.

Risk Factors

Achieving the Company's ambitious revenue growth goals depends on remaining competitive in the development of membrane products, systems and services. Membrane technology is an evolving field in which new developments are expected to continue at a rapid pace. As the number and size of installations increase, the potential impact on product warranties rises. Management believes that reasonable warranty reserves are established on an ongoing basis. The Company faces the inherent risk of product failure, product liability and potential environmental claims in respect of products, which it produces or designs. The possibility of a claim which is not adequately covered by insurance, or which exceeds the policy limit, could have a material impact. It is the opinion of management that adequate insurance is in place.

The sales of water purification systems is cyclical and influenced by several factors including fluctuating interest rates, the cyclical nature of the construction and land development industries, as well as seasonal fluctuation in cold climates. As a significant percentage of the Company's revenues are generated from municipalities, both funding availability and longer lead times inherent in the formal contractor selection process present

Katowice, Poland

contract timing risks that can have an adverse impact on short term revenues, profits and cash flows. As stated above, management believes that the Company has in place financing facilities to meet the foreseeable needs of the business.

The transition to Year 2000 occurred smoothly and all the Company's key computerized systems handled the transition without problems. Similarly no problems arose with field services, or with the Company's integration with its customers and suppliers.

Outlook

Revenue from ZENON's proprietary products is expected to increase significantly over the next few years. Today, the Company has technology leadership in the field of immersed membrane filtration systems with its ZeeWeed® technology. Research and development is focussed on ensuring the Company's continued leadership in this global market.

During 2000, the Company will continue to support its sales and marketing efforts, not only with advanced products, but also with the resources necessary to address the increasingly global and rapidly expanding market for ZENON's technology. Focus will continue also on standardization of the Company's systems, further improvements and efficiencies in the area of membrane manufacturing, and in the streamlining of all business processes. As in 1999, management will ensure that the Company has in place the right level of infrastructure, manufacturing capacity and financial strength to support its considerable growth prospects over the years ahead. In addition, ZENON is committed to spending sufficient amounts on research and development to ensure that the technology base of the Company remains leading edge and is continually refreshed.

In the short-term, activity in the marketplace will continue to grow rapidly and ZENON will invest appropriately to position itself to capture a significant share of this market growth. The long-term nature of the sales cycle and the uncertain timing of some key projects may affect the short-term revenue and profit results, as it did in 1999. Nevertheless, management is confident that breakthroughs in technology and market penetration will deliver impressive revenue and profit gains in the medium term. The Company is well positioned to maintain its leadership in a market sector that is growing at an ever-increasing pace.

Collingwood, Ontario

"The global marketplace for water treatment, already expanding due to population growth and environmental concerns, is just at the beginning of a major technological shift."

Andrew Benedek
Chairman and CEO

Management's Responsibility for Financial Reporting

The accompanying financial statements of ZENON Environmental Inc. and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the Annual Report and has ensured that it is consistent with that in the financial statements. ZENON Environmental Inc. endeavours to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are necessary to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the Annual Report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of external auditors.

The Company's financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP have full and free access to the Audit Committee.

Andrew Benedek
Chairman and
Chief Executive Officer

David V. M. Hull
Senior Vice President, Finance and
Chief Financial Officer

To the Shareholders of
ZENON Environmental Inc.

We have audited the consolidated balance sheet of ZENON Environmental Inc. as at December 31, 1999 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Canada.

The consolidated financial statements for the preceding year were audited by other auditors.

Ernst & Young LLP

Chartered Accountants
Toronto, Canada,

March 2, 2000

Consolidated Balance Sheet

As at December 31

(All figures in $000's)

	1999	1998
Assets (note 6)		
Current		
Cash and cash equivalents	**8,676**	12,752
Accounts receivable	**18,971**	15,914
Unbilled revenue	**28,066**	16,900
Inventories (note 2)	**7,925**	8,713
Prepaid expenses and deposits	**1,038**	682
Total current assets	**64,676**	54,961
Capital assets, net (note 3)	**28,622**	11,234
Patents, goodwill and other assets (note 4)	**13,104**	11,183
Loans receivable (note 5)	**1,650**	2,980
Total assets	**108,052**	80,358
Liabilities and Shareholders' Equity		
Current		
Bank indebtedness (note 6)	**5,673**	1,967
Accounts payable and accrued liabilities	**20,991**	18,502
Current portion of long-term debt (note 7)	**125**	1,780
Total current liabilities	**26,789**	22,249
Long-term debt (note 7)	**7,705**	3,193
Total liabilities	**34,494**	25,442
Shareholders' equity		
Capital stock (note 8)	**70,791**	51,729
Share purchase loan receivable (note 5)	**(330)**	—
Retained earnings	**5,439**	4,115
Unrealized translation adjustment	**(2,342)**	(928)
Total shareholders' equity	**73,558**	54,916
	108,052	80,358

Commitments and contingencies (note 9)

See accompanying notes

Approved by the Board of Directors:

Andrew Benedek
Chairman and Chief Executive Officer

George Lethbridge
Director

Consolidated Statement of Income

Year ended December 31

(All figures in $000's)

	1999	1998
Revenue	**98,755**	77,211
Cost of sales and services	**63,608**	47,267
Gross profit	**35,147**	29,944
Expenses		
Selling, general and administrative	**26,622**	20,452
Amortization	**4,904**	4,372
Interest, net	**(20)**	295
	31,506	25,119
Operating income before the following	**3,641**	4,825
Write-down in carrying value of investment (note 5)	**1,088**	—
Operating income before income taxes	**2,553**	4,825
Provision for income taxes — current (note 10)	**89**	36
Net income for the year (note 11)	**2,464**	4,789

See accompanying notes

Consolidated Statement of Retained Earnings

Year ended December 31

(All figures in $000's)

	1999	1998
Retained earnings (deficit), beginning of year	**4,115**	(594)
Net income for the year	**2,464**	4,789
Dividends on preference shares	**(80)**	(80)
Premium on buy-back of common shares (note 8)	**(1,060)**	—
Retained earnings, end of year	**5,439**	4,115

See accompanying notes

Consolidated Statement of Cash Flows

Year ended December 31

(All figures in $000's)

	1999	1998
Operating Activities		
Net income for the year	**2,464**	4,789
Add items not affecting cash		
Amortization	**4,904**	4,372
Write-down in carrying value of investment	**1,088**	—
	8,456	9,161
Net change in non-cash working capital balances related to operations (note 15)	**(14,935)**	(12,670)
Cash used in operating activities	**(6,479)**	(3,509)
Financing Activities		
Stock options exercised	**704**	164
Proceeds from long-term debt	**4,599**	1,340
Repayment of long-term debt	**(1,685)**	(2,173)
Decrease in capital leases	**(113)**	(180)
Buy-back of common shares	**(1,399)**	—
Issue of Class A shares	**18,697**	29,162
Cash provided by financing activities	**20,803**	28,313
Investing Activities		
Purchase of capital assets	**(18,795)**	(5,390)
Proceeds on disposal of capital assets	**84**	195
Increase in patents, goodwill and other assets	**(3,308)**	(2,635)
Proceeds on disposal of other assets	**—**	388
Increase in long-term receivable	**—**	(2,980)
Cash used in investing activities	**(22,019)**	(10,422)
Effect of exchange rate changes on cash	**(87)**	68
Increase (decrease) in cash during the year	**(7,782)**	14,450
Cash position, beginning of year	**10,785**	(3,665)
Cash position, end of year	**3,003**	10,785
Cash position comprises:		
Cash and cash equivalents	**8,676**	12,752
Bank indebtedness	**(5,673)**	(1,967)
	3,003	10,785
Supplemental cash flow information:		
Cash taxes paid	**49**	18
Cash interest paid	**674**	705

See accompanying notes

1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of ZENON Environmental Inc. (the "Company"). The Company is incorporated under the laws of the Province of Ontario. The Company is a leader in the manufacturing and use of membrane technology for water and wastewater treatment. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries.

Revenue recognition

Revenue from significant contracts is recognized on the percentage-of-completion basis. Revenue from all other contracts is recognized on the completed contract basis. From January 1, 1999 onwards, management has amended the basis used to measure work accomplished by the Company on significant contracts to better reflect the changing nature of the business. In the calculation of revenue and profit earned, greater weighting is given to value added activities undertaken by the Company that are critical to the completion of the contracts, such as the design, fabrication, assembly and installation of membrane systems. Prior to January 1, 1999, the percentage-of-completion of significant contracts had generally been determined with reference to the total costs incurred on the contract. This amendment arose from a review of the profile of contracts undertaken by the Company where it became clear that the increasing use of third party suppliers and the increase in the average size of the projects in 1999 meant that the use of total contract costs no longer served as an appropriate measurement of the work completed by the Company. Had this amendment not been in effect in fiscal 1999, the net income for the year would have been less by approximately $1.4 million. Applying this method of determining the percentage of completion in prior years would not have had a material impact on the determination of net income of the Company for fiscal 1998 or on opening retained earnings at January 1, 1998.

Although management uses its best estimates in determining contract revenue and costs, revisions in cost and profit estimates during the course of the contract can occur and are reflected in the period during which the need for the revision becomes known. Certain contracts contain penalty provisions based on performance relative to established targets. Such penalties are included in cost estimates when such amounts become effective and can be reasonably determined. Pre-contract costs such as bid and proposal costs are expensed as incurred. Only once the contract has been awarded are contract costs deferred and included in the percentage-of-completion calculations. For contracts where revenue is recognized on the percentage-of-completion basis, in situations where contract costs and related profit margins are in excess of amounts billed, these amounts are included in the caption unbilled revenue on the consolidated balance sheet. Where amounts billed are in excess of contract costs and related profit margins, then these amounts are included in customer advances and are included with accounts payable and accrued liabilities on the consolidated balance sheet.

Revenue from maintenance contracts is recognized on a straight-line basis over the term of the contract.

When the Company enters into license agreements, revenue from such agreements is recognized when the agreement is executed.

Generally, these agreements do not commit the Company to any future obligations. Where such future obligations do exist, the Company defers revenue to cover these future obligations.

Provisions for future warranty costs are made at the time the related revenue is recorded.

Cash and cash equivalents

All liquid investments with original maturities of three months or less are classified as cash and cash equivalents.

Inventories

Raw materials are stated at the lower of cost and replacement cost. Work in process and finished goods are stated at the lower of cost and net realizable value. Cost is generally determined on a first-in, first-out basis.

Capital assets

Capital assets are recorded at cost less related investment tax credits and government grants. Amortization is recorded using the straight-line method principally over the following periods:

Building	40 years
Machinery and equipment	3–8 years
Furniture and fixtures	5–8 years
Computer equipment & software	3–7 years
Automobiles	5 years

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Interest incurred on debt related to the building under construction is included in the cost of such assets.

Research and development costs

Research and development costs are expensed in the year in which they are incurred, except when development costs meet the criteria for deferral. Deferred product development costs are amortized on a straight-line basis over periods ranging from 3 years to 5 years.

Government incentives

Government incentives are accounted for using the cost reduction method whereby the incentives relating to current expenditures are deducted from the related expenditures and those relating to capital expenditures are applied to reduce the cost of the asset acquired.

Patents and other assets

Patent costs are amortized on a straight-line basis over the life of the patent generally not exceeding 17 years. Included in other assets are deferred product development costs which are amortized on a straight-line basis over periods not exceeding 5 years. Pre-operating costs associated with the commencement of new operations, which are generally related to the expansion of the Company's international service and sales network, are deferred until the new location is capable of commercial operations. Such costs are amortized on a straight-line basis over 3 years commencing with the date on which the new operation is capable of commercial operations. The recoverability of these costs is reviewed on an annual basis.

Goodwill

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the net assets acquired and is amortized on a straight-line basis over periods not exceeding 40 years.

The Company periodically assesses whether there has been any impairment in value based on the ability to recover the balance of the goodwill from expected future operating cash flows on an undiscounted basis. Any permanent impairment in the value of goodwill would be written off against income.

Income taxes

The Company uses the deferral method of income tax allocation. Income taxes are computed on the basis of financial statement income. Deferred income taxes arise from differences between financial and tax reporting at the time of recognition of income and expenses.

Foreign currency translation

Revenue and expenses of self-sustaining foreign operations are translated into Canadian dollars at the average rates of exchange during the year. The assets and liabilities of such operations are translated at year-end rates. The resulting gain or

loss on translation is accumulated in shareholders' equity as an unrealized translation adjustment.

Transactions of Canadian operations denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the date of the transaction. Monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet date, and the resulting exchange gain or loss is included in income.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

2. Inventories

Inventory consists of the following:

($000's)	1999	1998
Raw materials	**2,232**	3,068
Work in process	**2,612**	2,184
Finished goods	**3,081**	3,461
	7,925	8,713

3. Capital Assets

Capital assets are shown in the table below. Interest capitalized during the year ended December 31, 1999 was approximately $95,000 (1998: nil).

Capital Assets 1999 ($000's)	Cost	Accumulated amortization	Net book value
Land	**4,168**	**—**	**4,168**
Building	**1,340**	**13**	**1,327**
Machinery and equipment	**19,526**	**10,333**	**9,193**
Furniture and fixtures	**1,681**	**914**	**767**
Leasehold improvements	**1,553**	**1,035**	**518**
Computer equipment and software	**5,248**	**3,008**	**2,240**
Automobiles	**413**	**237**	**176**
Assets under construction or development	**1,083**	**—**	**1,083**
Building under construction	**8,925**	**—**	**8,925**
Deposit on land and building	**225**	**—**	**225**
	44,162	**15,540**	**28,622**

Capital Assets 1998 ($000's)	Cost	Accumulated amortization	Net book value
Land	175	—	175
Building	47	9	38
Machinery and equipment	13,632	7,992	5,640
Furniture and fixtures	1,535	858	677
Leasehold improvements	1,553	833	720
Computer equipment and software	4,587	2,339	2,248
Automobiles	364	99	265
Assets under construction or development	969	—	969
Deposit on land	502	—	502
	23,364	12,130	11,234

4. Patents, Goodwill and Other Assets

Patents, goodwill and other assets consists of the following:

($000's)	1999	1998
Patents	**2,210**	1,643
Goodwill	**5,244**	5,191
Net investment in sales-type leases	**230**	274
Deferred product development costs	**3,232**	1,910
Pre-operating costs & other	**2,188**	2,165
	13,104	11,183

Accumulated amortization of patent costs at December 31, 1999 was $513,000 (1998: $387,000). Accumulated amortization of goodwill at December 31, 1999 was $1,033,000 (1998: $640,000). Amortization of deferred product development costs during the year amounted to $816,000 (1998: $533,000). Included in pre-operating costs and other, is an advance of $115,000 to Zee-Bih Resources Inc., a start-up venture with a First Nations group in which the Company has a 49% interest.

5. Loans Receivable

As at December 31, 1998, loans receivable included loans of $1,980,000 to officers of the Company for the purpose of purchasing shares of the Company and are evidenced by loan agreements. Under the terms of the loan agreements the loans are interest free until July 31, 2001 (note 14) and bear interest at the bank's prime rate of interest thereafter. The loans are repayable, including interest, in four equal annual installments on July 31, 2002 through July 31, 2005. The loan agreements do not provide for any collateral. On termination of the employment relationship, the loans become due and payable by the officers. Although all of the December 31, 1998 amounts remain outstanding on December 31, 1999, during 1999, two of the officers left the employ of the Company. In one case, the loan has been reclassified as a reduction of shareholders' equity.

The Company has made a provision in the amount of approximately $1.1 million as a result of uncertainty regarding the recovery of a secured convertible debenture and the related interest earned to December 31, 1999. Negotiations are ongoing with both the issuer of the debenture and its possible successor to ascertain if it is more favorable for the Company to realize on its security or to enter into a longer term arrangement. Until this determination is complete, the Company will be unable to conclude the amount, if any, of the debenture which will be recovered. Pending such determination, legal counsel retained by the Company is maintaining the Company's rights under the debenture and the security contained therein.

6. Bank Credit Facilities

In 1999, the Company and its subsidiaries entered into agreements with banks providing credit facilities which total $83.2 million. These facilities are made up as shown below:

($millions)	
Demand facilities	**34.4**
Revolving term facility (note 7)	**10.0**
Letters of credit	**24.3**
Foreign exchange contracts (note 14)	**14.5**
	83.2

Of these facilities at December 31, 1999, approximately $7.5 million of the revolving term facility, $5 million for letters of credit and $7 million for exchange contracts were utilized respectively. The demand borrowings are limited to available margin on eligible accounts receivable, inventory and contract balances, and can be accessed in either Canadian or US dollars. Substantially all of the assets of the Company and certain subsidiaries have been pledged as collateral for these facilities in total. The demand facility bears interest at the Company's banker's prime rate for either Canadian or US dollar loans. The revolving term facility can be accessed at variable rates or fixed rates with the variable rate being defined as the bank's prime rate and the fixed rate being defined as the bank's prime rate at the point of issuance plus 1.5%. The weighted average interest rate of the bank indebtedness in fiscal 1999 was approximately 6.5% (1998: 7%).

The banking agreements provide for the existence of certain restrictive financial covenants. The Company was in compliance with these covenants as at December 31, 1999.

7. Long-term Debt

Long-term debt consists of the items shown below.

($000's)	**1999**	**1998**
Revolving term facility maturing June 2006, principal repayable at $2,000,000 annually starting June 2002, plus interest at the bank's prime rate (note 6)	**7,470**	—
Obligations under capital leases	**360**	417
Bank term loan repayable from $20,000 to $47,500 monthly, plus interest at the bank's prime rate repaid from proceeds on new revolving term facility	**—**	3,668
Bank term loan repayable at $91,000 monthly, plus interest at the bank's prime rate repaid from proceeds on new term facility	**—**	668
Non-interest bearing note, discounted at 7%, repayable in quarterly instalments of US$46,880	**—**	72
Other	**—**	148
	7,830	4,973
Less current portion	**125**	1,780
	7,705	3,193

Aggregate annual principal repayments required in respect of long-term debt are shown below.

($000's)	
2000	125
2001	105
2002	2,105
2003	2,025
2004	2,000
Thereafter	1,470
	7,830

Interest expense on long-term debt during the year amounted to $277,000 (1998: $400,000).

8. Capital Stock

Capital stock consists of the following:

Authorized:

- 300,000, 2% cumulative, redeemable, convertible, voting Series 1 preference shares
- Unlimited non-voting, convertible, participating, Class A shares
- Unlimited number of common shares

($000's)	**1999**	**1998**
Issued		
300,000 Series 1 preference shares	**4,000**	4,000
3,900,000 (1998: 2,800,000) Class A shares	**47,859**	29,162
19,543,292 (1998: 19,516,712) common shares	**18,932**	18,567
	70,791	51,729

The Company split its shares on June 4, 1999 on a 2-for-1 basis. The impact of this share split has been reflected on a retroactive basis in these consolidated financial statements.

During 1999, the Company issued 1,100,000 Class A shares for approximately $18,697,000 net of expenses of approximately $965,000. During 1998, the Company issued 2,800,000 Class A shares for approximately $29,162,000 net of expenses of approximately $1,638,000. The Class A shares are convertible into common shares on a share-for-share basis on June 10, 2008. In addition, during 1999 the Company bought back 120,800 common shares for cancellation. The purchase price paid aggregated to approximately $1.4 million and the premium of the consideration over the average cost of the common shares acquired has been charged to retained earnings.

The Series 1 preference shares are redeemable at $13.33 per share plus any unpaid dividends. The Series 1 preference shares are convertible into common shares at any time after September 23, 2000 at a conversion price equal to the weighted average trading price for the common shares during the five trading day period immediately prior to conversion.

Stock options

A summary of all outstanding common share purchase options is shown below:

	Number of shares	Aggregate option price ($000's)	Weighted Average Exercise Price ($)
Balance 31/12/97	1,024,000	3,145	3.07
Granted during the year	526,000	5,186	9.86
Exercised during the year	(51,792)	(164)	3.17
Balance 31/12/98	1,498,208	8,167	5.45
Exercised during the year	(147,380)	(704)	4.78
Cancelled during the year	(34,516)	(256)	6.54
Balance 31/12/99	**1,316,312**	**7,207**	**5.48**

The options outstanding have been granted under an employee stock option plan at the market price at date of grant ranging from $1.55 to $13.75 per common share and expire on various dates beginning June 1, 2000 and ending August 13, 2004. The options have a term of up to seven years certain of which are exercisable in instalments. At December 31, 1999, options to purchase 323,494 common shares are not yet exercisable.

A summary of all outstanding Class A share purchase options is shown below:

	Number of shares	Aggregate option price ($000's)	Weighted Average Exercise Price ($)
Balance 31/12/98	—	—	—
Granted during the year	241,800	3,083	12.75
Balance 31/12/99	**241,800**	**3,083**	**12.75**

The options outstanding have been granted under an employee stock option plan at the market price at date of grant at $12.75 per Class A share. The options have a term of up to 5 years and are exercisable in instalments. At December 31, 1999, options to purchase 177,440 Class A shares are not yet exercisable.

9. Commitments and Contingencies

i) The Company is committed to minimum lease payments under various operating leases as follows:

($000's)	Real property	Equipment	Total
2000	657	434	1,091
2001	337	231	568
2002	311	148	459
2003	240	92	332
2004	241	67	308
	1,786	972	2,758

ii) The Company provides certain warranties on its products and services. As a result of the technologies involved and the various uses of the Company's products, it is difficult to determine the future claims under such warranties. Provisions for future warranty costs, based on past experience and management's best estimates, have been included in the consolidated financial statements, however there is no assurance that additional costs will not be incurred. In addition, the Company has performance bonds outstanding under product manufacturing and service contracts totalling approximately $28 million.

iii) During 1999, a former employee filed a statement of claim in support of a claim for unfair dismissal. In the opinion of management this claim is without merit and accordingly it is not anticipated that any material loss will arise on resolution of this matter.

iv) As at December 31, 1999, the Company is committed to capital asset purchases of approximately $9.3 million.

10. Income Taxes

The Company has unclaimed deductions for tax purposes and tax loss carryforwards of approximately $7 million for which no benefit has been recorded in the accounts. The majority of this amount represents unclaimed deductions which can be used indefinitely. In addition, the Company has investment tax credits of approximately $2 million for which no benefit has been recorded in the accounts. These credits may be applied against future income taxes payable. The rights to claim these credits expire in varying amounts from 2006 through 2009.

The provision for income taxes differs from the amounts which would be obtained by applying the Canadian statutory rate to operating income before income taxes. The differences result from the following items:

($000's)	1999	1998
Provision for income taxes at Canadian statutory rates	**970**	1,916
Losses not tax effected	**125**	77
Effect of permanent differences	**51**	(102)
Utilization of loss carryforwards	**(1,179)**	(1,662)
Lower foreign tax rates on losses (income)	**122**	(193)
Total provision for income taxes	**89**	36

11. Net Income Per Share

Net income per share and fully diluted net income per share are $0.11 (1998: $0.23) and $0.10 (1998: $0.21) respectively.

Net income per common share and Class A share is based on the weighted average number of shares outstanding during the year (1999: 23,007,000; 1998: 20,600,000).

12. Research and Development Costs

During the year, the Company incurred approximately $5,686,000 (1998: $4,015,000) in research and development costs.

The Company receives incentives under various government programs and from other sources in respect of certain qualifying current expenses. During 1999, total incentives amounted to $2,225,000 (1998: $1,714,000) all of which related to current expenses and therefore were included in income as a reduction of research and development costs.

Repayment of certain incentives received in the current and prior years is required if the research and development results in a marketable product. If this occurs, the repayment is in the form of a royalty based on a percentage of the resulting sales revenue for a fixed period of time. Such royalties are charged to income when incurred.

The Company is also entitled to receive an investment tax credit for qualifying research and development costs incurred.

13.Segmented Information

The Company operates in Canada, the US, Europe and the Middle East, in the water treatment industry. Its reportable operating segments are strategic business units that offer membrane based systems for water and wastewater treatment. These are segments managed separately as each business unit requires a different market strategy.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company accounts for intersegment sales at agreed upon prices which recognizes the research and development costs incurred in the development of membranes.

Operations and identifiable assets by operating segment are presented below. External sales are allocated on the basis of sales to external customers.

Operating Segments ($000's)	Technology, Membranes and Corporate		North America Systems		Europe/Middle East Systems		Total	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
Revenue from external customers	**2,716**	2,058	**61,376**	55,938	**34,663**	19,215	**98,755**	77,211
Intersegment revenue	**16,506**	13,091	**1,927**	53	**—**	—	**18,433**	13,144
Amortization of capital assets (1)	**1,844**	1,450	**2,223**	2,120	**837**	802	**4,904**	4,372
Segment income before interest and taxes	**435**	1,593	**1,795**	3,411	**347**	329	**2,577**	5,333
Total assets	**89,262**	63,165	**14,552**	13,080	**4,238**	4,113	**108,052**	80,358
Capital assets expenditures (1)	**17,287**	3,280	**5,356**	2,947	**1,655**	2,086	**24,298**	8,313

Reconciliation of income ($000's)	**1999**	**1998**
Total income for reportable segments	**2,577**	5,333
Elimination of intersegment profit	**(44)**	(213)
Interest, net	**20**	(295)
Provision for income taxes	**(89)**	(36)
Net income for the year	**2,464**	4,789

External sales and capital assets by jurisdictions ($000's)	Canada		United States		Europe/Middle East		Total	
	1999	**1998**	**1999**	**1998**	**1999**	**1998**	**1999**	**1998**
External sales	**51,142**	46,246	**12,950**	11,750	**34,663**	19,215	**98,755**	77,211
Capital assets[1]	**36,951**	17,901	**1,247**	1,619	**3,528**	2,897	**41,726**	22,417

[1] *Includes patents, goodwill and other assets*

14. Financial Instruments and Risk Management

The Company has only limited involvement with derivative instruments and does not use them for speculative purposes. They are used to manage well-defined foreign exchange and interest rate risks arising out of the normal course of business.

At certain times throughout the year, the Company enters into forward foreign exchange contracts to hedge accounts receivable and future revenues denominated in a foreign currency.

At December 31, 1999, the Company had forward foreign exchange contracts to exchange US dollars into Canadian dollars in the amount of approximately $7,000,000. In 1998, the Company had a contract to sell United Emirate Dirhams into US dollars in the amount of approximately US$5,300,000. The market value of such forward foreign exchange contracts was such that if these contracts had been closed out December 31, 1999, the Company would have recorded a gain of approximately $55,000 (1998: a gain of approximately $88,000).

The Company's estimate of the fair value of other financial instruments which includes receivables, unbilled revenue, loans receivable, payables and long-term debt approximates their carrying value, except for loans receivable from officers. The fair market value of these loans at December 31, 1999, including the loan shown as a reduction in shareholders' equity, using a 7% discount rate is $1,790,000.

The concentration of credit risk in accounts receivable is limited due to the Company's large customer base, geographic dispersion of its customers and deposits received from customers. In addition, in its largest business line the Company deals with various levels of government where the risk of credit loss is less than with the private sector. Certain of the Company's projects in the government sector can be subject to delays due to timing of the customer's funding arrangements.

While the Company has many customers, one customer represents 11% of the accounts receivable balance at December 31, 1999, and another customer represents 24% of the year-end unbilled revenue.

15. Consolidated Statement of Cash Flows

The net change in non-cash working capital balances related to operations consists of the following:

($000's)	**1999**	**1998**
Accounts receivable	**(3,377)**	(2,081)
Unbilled revenue	**(12,333)**	(9,869)
Inventories	**870**	(3,708)
Prepaid expenses and deposits	**(393)**	(338)
Accounts payable and accrued liabilities	**298**	2,378
Other	**—**	948
	(14,935)	(12,670)

During the year ended December 31, 1999, the Company has adopted the new accounting recommendations of The Canadian Institute of Chartered Accountants with respect to the statement of cash flows. Accordingly, the comparative consolidated statement of cash flows has been restated to exclude non-cash investing and financing transactions. During the year, capital assets of approximately $21 million were acquired, of which approximately $2.1 million was accrued but not paid for as at December 31, 1999.

16. Comparative Consolidated Financial Statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 1999 consolidated financial statements.

Corporate Information

Directors

Andrew Benedek
Chairman of the Board and
Chief Executive Officer

John A. Coburn
Senior Vice-President

George Lethbridge
Independent Business Consultant

Frank McKenna
Senior Partner
McInnes, Cooper & Robertson
Barristers & Solicitors

Waldemar Pieczonka
Retired CEO of Gennum Corporation

Stephen G. Snyder
President and CEO
TransAlta Corporation

Andrew J. Szonyi
Independent Business Consultant

Senior Officers

Andrew Benedek
Chairman of the Board and
Chief Executive Officer

John A. Coburn
Senior Vice-President

Pierre Côté
Chief Technology Officer

Kenneth P. Goodboy
Vice-President, Operations

David V. M. Hull
Senior Vice-President, Finance and
Chief Financial Officer

Rafael D. Simon
Vice-President, Corporate Development

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Share Listing

The shares of the Company are listed for trading on The Toronto Stock Exchange under the symbols "ZEN" and "ZEN.A."

A copy of the Company's Annual Report may be obtained, without charge, upon request directed to ZENON's Corporate Headquarters, to the attention of the Investor Relations Department.

You may also visit us on the web at **www.zenonenv.com**.

Shareholders are invited to attend ZENON's Annual General Meeting to be held on Thursday, May 18, 2000 at 4:30 p.m. at the Corporate Headquarters located at 3239 Dundas Street West, Oakville, Ontario.

Water for the World

ZENON Environmental Inc.
3239 Dundas Street West
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